Facts & Figures

Veterinary practice expenses and financial ratios, 2003

Financial Ratios

Five financial ratios were computed from the expense data (Table 2). Ratios are not absolute criteria for operating performance but represent industry benchmarks. The ratio of return to labor and management to practice revenue is a measure of profitability. Median value of this ratio for all practices in 2003 was 0.31, compared with 0.28 in 2001. This implies that after all cash expenses were paid and owners were compensated for a 12% return to equity capital, 31% of revenue was available to compensate owners’ labor and management. That is, for every dollar of gross practice receipts generated in 2003, 31 cents accrued to practice owners in the form of salaries and profits. The ratio varied from 0.23 for other (miscellaneous) practices to 0.46 for large animal exclusive practices.

The ratio of total practice debt to total practice assets is a measure of long-term financial solvency. The median ratio in 2003 was 0.26, compared with 0.24 in 2001. This indicates that 26% of total practice assets was financed from outside capital sources. An increase in this ratio represents an increase in external financing of veterinary practices. This ratio increased in 2003 versus 2001 for large animal exclusive practices, mixed animal practices, and small animal predominant practices. The debt-to-asset ratio decreased for other (miscellaneous) practices and remained the same for large animal predominant practices, small animal exclusive practices, and equine practices.

A second measure of long-term financial solvency is the ratio of total practice debt to net worth. A ratio > 1.0 indicates that external financing of the practice exceeds the owner’s capital contribution. Practices with high ratios may be undercapitalized. In 2003, the median debt-to-net worth ratio was 0.22, compared with 0.25 in 2001. In 2003, the median debt-to-net worth ratio ranged from 0.13 for large animal predominant practices to 0.27 for mixed practices. The median debt-to-net worth ratio in 2003 was higher than the median debt-to-net worth ratio in 2001 for large animal predominant practices, small animal exclusive practices, mixed animal practices, and equine practices. The ratio was lower in 2003 for large animal predominant practices, small animal exclusive practices, and other (miscellaneous) practices.

The acid-test ratio, a measure of the practice’s ability to meet short-term obligations, is the ratio of current assets (ie, cash, short-term marketable securities, and accounts receivable) to current liabilities (ie, accounts payable and notes payable in 1 year). The median acid-test ratio increased from 3.64 in 2001 to

Table 1

As in 2001, the 3 largest expense categories for private veterinary practices in 2003 were drug and medical supplies, ancillary staff salary and bonuses, and nonowner veterinarian salary and bonuses.

The acid-test ratio (the ratio of current assets to current liabilities) was higher for each practice type in 2003, compared with 2001.

Table 2

Variations in scope of practice will result in differences in practice expenses across practice types. Of practices that incurred specific expenditures, the 3 largest expense categories (in descending order) were drug and medical supplies, ancillary staff salary and bonuses, and nonowner veterinarian salary and bonuses (Table 1).

Operating expense percentages also were determined for the practice expense items. For each practice, each expense was divided by total practice expenses and then by gross practice income. Missing values or 0 expenditures for a particular expense were not included in computation of the percentage for that particular expense item. For this reason, the sum of all operating expense percentages for a particular practice type equals more than 100%.

As in past years, drug and medical supplies represented a large percentage of expenses for each practice type (Table 1). The percentage of drug and medical supplies for each practice type was large animal exclusive, 72%; large animal predominant, 67%; mixed, 52%; equine, 45%; other (miscellaneous), 40%; small animal predominant, 33%; and small animal exclusive, 32%.

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Inventory turnover ratio measures the number of times that a practice's inventory has been depleted during the year. This value was computed by dividing the total drug and hospital supply expense by the value of drug and hospital supply inventory. The inventory turnover ratio for all practices combined was 4.0 in 2003, compared with 4.5 in 2001. In 2003, the ratio increased for large animal exclusive practices, small animal predominant practices, equine practices, and other (miscellaneous) practices. This value decreased for large animal predominant, mixed, and small animal exclusive practices in 2003.

Reference